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PAY REFORM

U.S. OFFICE OF PERSONNEL MANAGEMENT

OS91-1 Feb. 1991

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On November 5, 1990, President Bush signed into law the Federal Employees Pay Comparability Act of 1990 (FEPCA).

The law changes the way pay is set for General Schedule (GS and GM) employees.

Both the old pay-setting system and the new system compare Federal salaries with salaries paid to non-Federal workers. The old system did this on a *nationwide* basis.

The new system keeps the principle of full comparability with non-Federal salaries. The difference is that in the new system the comparisons will be made in *local geographic areas*. This will allow the Government to raise your salary each year by the amount that makes sense in the area *where you work*.

The following questions and answers are designed to help you understand how this important legislation could affect you. If you have any additional questions, you may contact your agency's personnel office.

What does pay reform mean to me?

First of all, your salary will *not* be cut because of this new law.

If you are a General Schedule (GS or GM) employee, the way your salary is raised each year will be changed.

Some parts of the law go into effect in 1991. The law becomes fully effective in 1994.

When the law is fully operational, annual salary raises will be based on two adjustments:

1. A *nationwide* adjustment will raise pay for *all* General Schedule employees across the country. This makes sure that *overall* growth in non-Federal salaries is reflected in Federal salaries.
2. A *locality* adjustment for which all GS and GM employees may be eligible, although the amount will vary between localities, and no payment is required in a locality where Federal salaries are close to non-Federal salaries.

Here is what will happen under the new law.

1991 In January, you received a 4.1% raise in salary. This raise was determined under the old pay-setting system.

If you work in the New York, San Francisco, or Los Angeles metropolitan areas, you also got an immediate 8% "interim geographic adjustment" added to your pay.

If you don't work in these three areas, you will not receive this additional 8% for 1991.

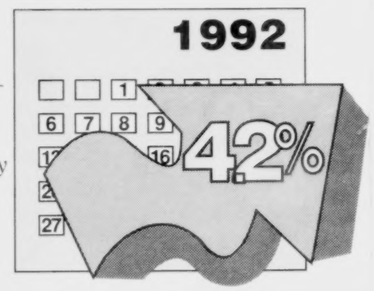
Why is the 8% going only to employees in New York, San Francisco, and Los Angeles? Will other areas get this 8% adjustment in the future?

The new law authorizes locality pay adjustments for all General Schedule employees. But, because setting up this new system will take time, the President authorized a special 8% "emergency" pay increase for Federal workers in New York, San Francisco, and Los Angeles. While many localities have pay gaps and staffing problems, both the pay gap and the critical recruitment and retention problems in New York, San Francisco, and Los Angeles are the most severe and require immediate attention. The President can authorize "interim geographic adjustments" for other localities with severe problems. These adjustments end in 1994 when *Locality Comparability Payments* go into effect for all General Schedule employees.

1992 In January, you will receive a 4.2% raise.

Isn't this the same sort of raise we've been receiving every January?

Not exactly. It may not appear very different from the raises you received before, but it is determined in a different way. While it is not based on a comparison of Federal and private sector salaries, it *is* based on the rate of *increase* in private sector salaries. The increase figure comes from the Employment Cost Index (ECI)—a measure of labor costs determined by Bureau of Labor Statistics surveys.



Private sector pay rose 4.2% from September 1989 to September 1990. Based on this figure, the General Schedule raise in January 1992 will be 4.2%.

Why is the raise for 1992 based on the ECI from September 1990, more than a year earlier?

The amount needs to be included in the President's budget proposal, which was prepared at the end of 1990 for the 1992 fiscal year.

Are these annual raises guaranteed?

No. However, the President cannot reduce them unless the country is in the midst of severe economic distress or a war. If the President does decide to reduce the raise, he must report his reasons to Congress.

1993 In January, you will receive another raise, based on the Employment Cost Index. We will know the amount in the fall of 1991.

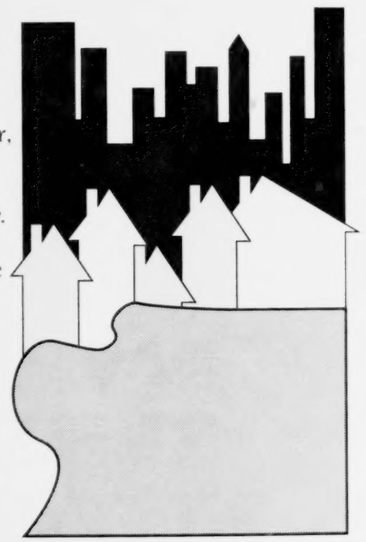
1994 By January, all the new provisions will be in effect. Just as in 1993, all General Schedule employees will receive a raise. In 1994, the formula for the nationwide adjustment becomes the Employment Cost Index minus half a percentage point (e.g., if the ECI is 5%, the nationwide raise is 4.5%).

The big change in 1994 is the beginning of *locality pay* for all General Schedule employees. Beginning in 1994, *if* Federal salaries in your locality lag significantly behind non-Federal salaries, you become eligible for locality pay *in addition to* the nationwide raise.

Every GS and GM employee (except those working overseas or in Hawaii, Alaska, Puerto Rico, the Virgin Islands, or Guam) will be in a pay area. Every year the Bureau of Labor Statistics will collect non-Federal salary information in *each* locality. In each locality where Federal salaries lag behind non-Federal salaries by more than 5%, Federal employees will begin receiving locality comparability payments in 1994.

If I am in a locality where Federal salaries are, let's say, 27% behind non-Federal salaries, do I get 27% in 1994?

No. The locality payments are phased in over time. If Federal salaries are 27% behind in your locality, in 1994 you would get two-tenths of the amount required to bring you up to within 5% of the non-Federal salaries in your locality. In other words, in 1994 you would get 4.2%. Remember, this 4.2% is *in addition to the nationwide raise.* In this example, if the nationwide raise were 4.5% and the locality payment were 4.2%, your total raise in 1994 would be nearly 9%.



You said phased in over time. How much time?

In all, the process of bringing Federal salaries in every locality up to within 5% of the non-Federal salaries will take nine years. Two-tenths of the difference will be granted in 1994. Beginning in 1995, an additional one-tenth of the difference will be granted each year. You will get three-tenths of the difference in 1995, four-tenths of the difference in 1996, and so on.

What if I'm in a pay locality where Federal salaries are more than non-Federal salaries? Will I lose money?

No. In a case like that, you would get the nationwide January raise. You would not get a locality payment, but you would not lose money.

Are there other features in the pay reform law?

There are many other features in the law. Some features deal with specific occupations, such as law enforcement. Some features allow agencies to offer special pay incentives in order to recruit employees or to encourage them to stay. Some of you *may* receive additional money from these other features. If you are in the General Schedule, however, most of you will have your pay adjusted in the way we've described here.

Does the new law do away with the special rates some employees now receive?

No. The new law does not end special rates, but special rates may become less necessary as locality payments narrow the gap between Federal and non-Federal salaries. (Special rates are higher salaries paid to employees in occupations and locations with especially severe pay problems. About 13% of all General Schedule employees receive special rates.) In some cases an employee's special rate *might* affect his or her eligibility for extra pay under the new law, but this will not mean a reduction in pay. For example, an employee already receiving a local special rate of 8% or more does not receive the additional 8% interim adjustment for New York, San Francisco, and Los Angeles.

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Besides pay, does the new law change anything else, such as retirement, job classification, step increases, or promotion rules?

No.

How can I get more information?

The best place for you to get more information about how the new law will affect your pay is from the office in your agency which administers your personnel and pay matters.

A Message to Federal Employees

The Federal Employees Pay Comparability Act of 1990 represents a landmark pay system improvement for the Federal civil service. We have brought about these changes because the Congress, Federal employee organizations, and the Administration were all committed to creating a fair, equitable, and cost-effective means of compensating Federal employees for the critical services you provide this Nation. We also wanted to assure that we will be able to continue to attract men and women of the highest calibre.

I am proud to have been a part of this effort, and I look forward to working with people throughout the Government to continue improving Federal human resources management programs.

Constance Berry Newman, Director
Office of Personnel Management

United States Office of Personnel Management

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